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BEFORE THE ARIZONA CORPORATION CC

COMMISSIONERS

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR A
HEARING TO DETERMINE THE FAIR VALUE
OF THE UTILITY PROPERTY OF THE
COMPANY FOR RATEMAKING PURPOSES, TO
FIX A JUST AND REASONABLE RATE OF
RETURN THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP SUCH
RETURN, AND TO AMEND DECISION NO.
67744.

DOCKET NO. E-01345A-05-0816

IN THE MATTER OF THE INQUIRY INTO THE
FREQUENCY OF UNPLANNED OUTAGES
DURING 2005 AT PALO VERDE NUCLEAR
GENERATING STATION, THE CAUSES OF THE
OUTAGES, THE PROCUREMENT OF
REPLACEMENT POWER AND THE IMPACT OF
THE OUTAGES ON ARIZONA PUBLIC
SERVICE COMPANY'S CUSTOMERS.

DOCKET NO. E-01345A-05-0826

IN THE MATTER OF THE AUDIT OF THE FUEL
AND PURCHASED POWER PRACTICES AND
COSTS OF THE ARIZONA PUBLIC SERVICE
COMPANY.

DOCKET NO. E-01345A-05-0827

STAFF'S NOTICE OF FILING

Staff of the Arizona Corporation Commission hereby provides notice of filing the
Supplemental Testimony of Matthew J. Rowell regarding the establishment of a rate stabilization
fund for APS in the above-referenced matter.

RESPECTFULLY SUBMITTED this 14th day of November, 2006.

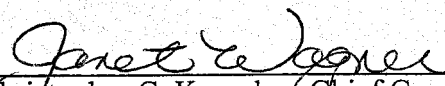
Arizona Corporation Commission

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SUMMARY OF THE RESPONSE TO COMMISSIONER INQUIRIES REGARDING THE
ESTABLISHMENT OF A RATE STABILIZATION FUND FOR APS
STAFF WITNESS
MATTHEW ROWELL

ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-05-0816

Several letters from Commissioners filed in this docket have inquired about the establishment of a mechanism similar to SRP's rate stabilization fund for APS. I will be addressing Staff's views on the establishment of such a mechanism for APS during my oral testimony on November 20 or 27, 2006. To summarize Staff's position: While a rate stabilization fund is a novel idea with potential benefits, Staff does not support the adoption of a rate stabilization fund for APS at this time. In general, rate stabilization funds suffer from a fundamental flaw: they require up front funding which imposes up front costs. Such costs may need to be supported by ratepayers. Also, given the size of recent actual and requested APS rate increases, any hypothetical rate stabilization fund would have had to have been very large (and thus very expensive) to make a meaningful difference in rate impact. With respect to SRP's rate stabilization fund, Staff notes that SRP is a fundamentally different type of entity than APS and thus policies that are appropriate for SRP may not be appropriate for APS; in fact they may not even be possible. For instance when SRP's rate stabilization fund was established, SRP had \$55 million at its disposal to deposit into the fund.